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Iraq

Grain and Feed Annual 2017

Iraqi Wheat Production Down; Weather, Procurement Drop, and Conflict to Blame

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Report Highlights:

Iraq's MY 2017/18 wheat production declined due to unfavorable weather conditions, lower wheat procurement prices, and the ongoing sectarian conflict. Because of quality issues, more wheat will be used for feed. Increased wheat and corn feeding are expected to offset the reduced availability of barley, given lower production. Higher forecast for wheat and rice imports may signal that Iraq will import these grains on a more regular basis this marketing year. However, the bulk of Iraq's wheat imports will continue to be in flour form. Rice imports during MY 2017/18 are expected to rise, as private sector imports and purchases to supply the Public Distribution System (PDS) both increase.

Executive Summary:

Weather conditions were less than ideal for fall planting of wheat and barley across the rain dependent areas of northern Iraq and Kurdistan. However, the crops that did make it through the winter benefited from late season rains, alleviating concerns over major crop losses.

Wheat production for marketing year (MY) 2017/18 is forecast at 4.0 million metric tons (MMT), a five percent decrease from the revised MY 2016/17 production estimate of 4.2 million metric tons. The Kurdish region is anticipating a crop of around 1.0 MMT, while the rest of Iraq is expecting a wheat crop of around 3.0 million metric tons. A lower wheat procurement price and the potential that wheat sales to the Ministry of Trade to be limited by a quota have had a negative effect on planted wheat area, and appears to be responsible for a small shift away from wheat into barley.

Barley production in MY 2017/18 is down based upon both a lower planted and harvested area. Returns to barley producers are highly dependent upon demand from livestock producers, returns may see an upturn as fighting in rural areas of northern Iraq has decreased, potentially leading to a return to livestock production. Rough rice production is forecast at 260 thousand metric tons (TMT), unchanged from MY 2016/17. Corn production in MY 2017/18 is forecast at 300 TMT, up 41 TMT from a MY 2016/17 estimate of 259 thousand metric tons.

The Ministry of Trade is expected to purchase approximately 2.4 MMT of Iraq's domestic wheat production to meet requirements of Iraq's Public Distribution System (PDS). This program is designed to provide wheat flour, rice, sugar and vegetable oil to nearly all of Iraq citizens on a monthly basis. However, the PDS domestic deliveries and imports have fallen below mandated levels, a trend that is expected to continue into the coming year for both flour and rice.

WHEAT

Production

Less than optimal winter conditions across Iraq's rain dependent northern areas appear to have limited wheat production; affecting primarily areas of the Ninewa governorate and the Kurdish region. This area, along with irrigated areas of Kirkuk, and Salah ah Din likely also saw reduced production from potential due to the ongoing conflict. Iraq reported a planted area of around 2.57 million hectares; harvested area is forecast to be 2.225 million hectares.

Post forecast MY 2017/18 wheat production at 4.0 MMT, down five percent from the previous year. The lower production is based upon poor planting and early winter conditions across the northern, rain dependent areas, including Kurdistan. Both planted and harvested area is expected to decline from the previous year. While the winter grains appeared to get off to a good start, winter dryness stressed the crops. However late season rains were enough to ensure a successful, but below potential harvest in the rain dependent areas. Irrigation water for wheat across central and southern areas appears to have been adequate. Iraq's wheat quality (i.e., protein) is reportedly poor this year.

Consumption

Wheat consumption is forecast to increase to 6.825 MMT in MY 2017/18 based primarily on expected increased feed wheat use. Food use will increase only slightly, as imports will not totally compensate for reduced wheat purchases to supply the Public Distribution System. When imports for the PDS and allowance for some slippage of PDS flour into feed use are made, per capita wheat consumption is relatively unchanged. Feed use is forecast to increase, however the forecast increase in feed use will not absorb the large quantity of feed wheat available to the market.

Imports

Wheat imports in MY 2017/18 are expected to show significant growth, and are forecast to increasing 550 thousand metric tons (TMT) to 2.850 MMT or 24 percent above the MY 2016/17 import level. Most of the increase will be due to increased wheat purchases to supply Iraq's Public Distribution System. Flour imports (grain equivalent) will remain strong showing some growth from current levels. The potential for increased flour imports estimate is based upon reported quality problems with the 2017 wheat harvest. However, flour, not grain will continue to comprise most of Iraq's wheat import total. During MY 2016/17 flour comprised 99 percent of imports. Wheat (grain) imports during MY 2017/18 are forecast to comprise 18 percent of total wheat imports. Expected purchases for the PDS will account for most of the increase in wheat imports. If quality concerns are realized both grain and flour imports could rise above the forecast level.

Flour Imports

In April 2017, the Iraqi Parliamentary Economic Commission reported that Iraq imports 2.5 MMT of flour annually. This estimate of flour imports was later revised when Iraqi officials disclosed that Iraqi imported 2.0 MMT of flour at a cost of \$800 million. The difference in the flour import estimates may be explained if the prior estimate of 2.5 MMT is on a grain basis. While not specified in the reports, it is assumed that the above references to flour imports are on a calendar year (CY) basis.

Reported annual flour import cost ranged between \$750 and \$800 million, suggesting that imported white flour delivered in 50/kg bags to markets within Iraq cost between \$300 and \$400 per metric ton.

However, the cost of providing the PDS flour, when domestic wheat is utilized is extremely high, exceeding \$600 per metric ton.

Table 1: Changing Mix of Wheat and Flour Imports: Iraq 2012 - 2016

	2012/13	2013/14	2014/15	2015/16	2016/17
Wheat	2,708 (69%)	1,812 (56%)	808 (36%)	364 (16%)	25 (1%)
Flour	1,240 (31%)	1,434 (44%)	1,445 (64%)	1,854 (84%)	2,275 (99%)
Total	3,948 (100%)	3,246 (100%)	2,253 (100%)	2,218 (100%)	2,300 (100%)

SOURCE: Global Trade Atlas (1000 MT).

Wheat imports to supply the PDS have declined precipitously over the last four years. In marketing year 2012/13, Iraq imported 2.7 MMT of wheat to supplement purchases of domestic production for the Public Distribution System. Large domestic wheat crops in 2013 and 2014 help explain the decline in imports, however other factors have taken over in the most recent years. The ongoing conflict in the northern governorates severely limited the ability of the Ministry of Trade to supply PDS goods to these areas. Demand for PDS flour was reduced nearly 25 percent given the proportion of the population affected by the conflict. A second factor has been the drop in international oil prices, from over \$100/barrel in 2014 to \$35/barrel in 2016. Ninety-five percent of Iraq's budget is derived from oil export revenue. The decline in oil revenue has affected funding for the PDS; spending on domestic wheat purchases is being prioritized at the cost of imports.

Wheat from Iraq's southern governorates tends to be low in protein and gluten, creating a less than satisfactory bread dough product. From this standpoint, Iraq should import around one-third of its PDS wheat requirement for blending and appearance purposes. Reports from sources within Iraq have raised concerns that the 2017 wheat crop is of below average quality. If true it raises the possibility of increased wheat imports.

The private sector is responsible for Iraq's flour imports, while the government tightly controls wheat imports. The surge in flour imports of over 50 percent since 2014 suggest that Iraq's domestic wheat production does not meet the quality requirements of Iraqi bakers. Suggestions have been floated recently by Iraqi officials that Iraq should import wheat to supply to the private sector millers and ultimately, bakers, independent of the Public Distribution System. Two direct benefits of such a plan would be to better utilize Iraq's private sector milling capacity, currently estimated to be operating at only 33 percent of capacity, and to capture the bran portion of the wheat for sale to the poultry and livestock sector.

Stocks

Despite a smaller domestic crop wheat ending stocks are estimated to increase 50 TMT, as quality issues push more domestic wheat into the feed sector where it is unlikely to be completely absorbed. Higher imports if realized will also displace domestic wheat for human consumption, adding to the likelihood that stocks will rise.

Policy

Iraq's Ministry of Trade continues to support wheat producers with a purchase program that pays 560,000 IQD/MT for #1 wheat; roughly \$487/MT at today's exchange rate. The current procurement price represents a sharp price decline from recent years and may lead to a lower planted area in coming years. Lower world oil prices and the cost of Iraq's ongoing conflict appear to be constraining Iraq's support to the agriculture sector.

Table 2: Government Support Program for Wheat (IQD/MT)
Iraq: Government Support for Wheat Producers

Year	Procurement Price (IQD/MT)	% Change
2015	795,000	-----
2016	700,000	-12%
2017	560,000	-20%

Marketing

In early August, the Ministry of Trade significantly reduced its estimate of the quantity of local wheat purchased from domestic producers. In mid-July of this year the Ministry reported local purchases of wheat of 3.1 million metric tons. The Ministry released a statement during the first week of August stating that only 2.38 MMT of local wheat has been purchased this season. The reported revision according to unofficial sources is due to the rejection of large quantities of wheat for failure to meet quality specifications.

The implications of sharply reduced domestic purchases are multiple. As this wheat is exclusively used for the Public Distribution System, lower deliveries imply lower PDS flour availability, unless a corresponding quantity of wheat is imported. The feed sector could also be affected, as most wheat not meeting PDS specifications will be diverted to the feed sector. This would increase overall feed availability. Reduced purchases also will significantly lower budget expenditures and farm income.

Public Distribution System (PDS)

The Public Distribution System is essentially an entitlement program that provides fixed quantities of wheat flour, rice, vegetable oil, and sugar to Iraqi citizens and is the driver of Iraq's wheat and rice (grain) imports. It is somewhat analogous to USDA's SNAP (Food Stamp) Program. However, the PDS supplies the food item, rather than a voucher or electronic benefit. The purchase of domestic wheat from the 2017 harvest and the indicated MY 2017/18 import level are inadequate to meet PDS wheat/flour requirements as mandated.

Iraq's mandated wheat PDS requirement is approximately 4.85 MMT, suggesting that less than 60 percent of the mandated PDS requirement will be met by domestic procurement and PDS wheat imports. Iraq would need to increase wheat imports by nearly 2.0 MMT, from current expectations to fully meet PDS flour requirements. Recent wheat purchases to supply the PDS during MY2017/18 and the combination of a smaller harvest and quality issues may suggest a continuation of purchases during 2017/18.

Table 3: Derived PDS Wheat and Rice Requirements

	Population	Eligibility %	Allocation/kg/mo./person	Monthly Requirement	Annual Requirement
Wheat	38 Million	92	11.5kg/mo. (wheat basis)	404,000 MT	4.85 MMT
Rice	38 Million	92	3.0 kg/mo. (milled rice)	105,000 MT	1.26 MMT

NOTE: Population based upon 2015 UN data and growth rate

While the Public Distribution System wheat flour and rice deliveries to recipients will be well below mandated levels for the foreseeable future, they are likely to continue, as no plans to reform the PDS are currently being discussed. The Public Distribution System delivery of wheat and rice is especially important for those at or below the poverty line with little disposable income to spend; Iraqis in the millions have been displaced by the ongoing conflict.

Table 4: Wheat Production, Supply and Demand

Wheat Market Begin Year Iraq	2015/2016		2016/2017		2017/2018	
	Jul 2015		Jul 2016		Jul 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	2450	2450	2350	2350	2225	2225
Beginning Stocks	582	582	810	810	835	835
Production	4410	4410	4225	4225	4025	4025
MY Imports	2218	2218	2300	2300	2500	2850
TY Imports	2218	2218	2300	2300	2500	2850
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	7210	7210	7335	7335	7360	7710
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Feed and Residual	650	650	650	650	700	925
FSI Consumption	5750	5750	5850	5850	6000	5900
Total Consumption	6400	6400	6500	6500	6700	6825
Ending Stocks	810	810	835	835	660	885
Total Distribution	7210	7210	7335	7335	7360	7710
Yield	1.80	1.80	1.80	1.80	1.81	1.81

(1000 HA) ,(1000 MT) ,(MT/HA)

BARLEY

Production

Barley production in MY 2017/18 is forecast at 1.33 MMT down 14 percent from last year's crop. The decline in barley production is the result of a lower planted and harvested area in the rain dependent parts of northern Iraq. Barley remains an important crop in Iraq with ruminant animals (i.e., sheep) heavily dependent upon barley as a feed source. The bulk of Iraq's barley is either fed directly or mixed with wheat straw for on farm use. The ongoing conflict is also affecting barley production in the Ninewa governorate; this major barley production area faces continued serious security concerns.

Barley consumption in Iraq during MY 2017/18 is forecast at 1.35 MMT down from the MY 2016/17 estimate of 1.550 million metric tons. Barley ending stocks are expected to fall given the short crop.

The lower wheat support price is having an impact on barley production, as producers may have the expectation that barley would show greater returns relative to wheat when sold for feed use. This was likely seen this past season in the Kurdish areas, where Ministry of Trade procurement of wheat has been restricted during the past two wheat harvest; the barley planted area has risen in some areas.

Table 5: Barley Production, Supply and Demand

Barley Market Begin Year Iraq	2015/2016		2016/2017		2017/2018	
	Jul 2015		Jul 2016		Jul 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1250	1250	1200	1200	1025	1065
Beginning Stocks	30	30	80	80	85	85
Production	1550	1550	1550	1550	1275	1325
MY Imports	0	0	5	5	5	5
TY Imports	0	0	5	5	5	5
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	1580	1580	1635	1636	1365	1415
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Feed and Residual	1200	1200	1250	1250	1100	1100
FSI Consumption	300	300	300	300	250	250
Total Consumption	1500	1500	1550	1550	1350	1350
Ending Stocks	80	80	85	85	15	65
Total Distribution	1580	1580	1635	1605	1365	1415
Yield	0.9052	1.24	1.29	1.2917	1.24	1.24

(1000 HA) ,(1000 MT) ,(MT/HA)

RICE

Iraq's MY 2017/18 rice crop is forecast at 173 TMT on a milled basis, unchanged from the previous year. Planted area in MY 2017/18 appears similar to last year's area, as does the current condition of the crop. Press releases by Iraq's Ministry of Agriculture suggest that they anticipate a 250 TMT crop (rough basis), based on a smaller planted area and higher yield. Iraq's rice crop is completely dependent upon irrigation water availability, which currently appears adequate, but critical growth stages are still ahead. Yield potential will have to be monitored in coming months.

Rice consumption during MY 2017/18 is forecast to increase 150 TMT from the MY 2016/17 level. Higher consumption is forecast based upon the expectation that Iraq will continue increased, but limited international rice purchases to supply the PDS, and that private sector imports will also show some strengthening. Domestic marketing of rice for the PDS are limited, as private sector mills offer better return to most producers.

Recent purchases of rice may suggest that Iraq is back in the world market after a long absence. However, the same problems that have plagued the PDS wheat procurement also affect rice procurement. This will likely limit purchases this market year. While domestic PDS rice requirements exceed 1.25 MMT annually, the Ministry of Trade has struggled in recent years to meet even a third of mandated requirements. Reports from private sector importers suggest that the Iraqi market is well supplied, despite the shortfall in the PDS rice purchases and distribution.

Table 6: Changing Mix of Rice Imports

	2012/13	2013/14	2014/15	2015/16	2016/17
PDS	1,150	675	850	420	300
Private Sector	261	275	311	430	700
Total	1,411	950	1,161	850	1,000

Stocks

Ending stocks are forecast to remain essentially unchanged during MY 2017/18 at 78 TMT, down 2 TMT from MY 2016/17.

Table 7: Rice Production, Supply and Demand

Rice, Milled	2015/2016		2016/2017		2017/2018	
Market Begin Year	Oct 2015		Oct 2016		Oct 2017	
Iraq	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	48	48	65	65	65	65
Beginning Stocks	222	222	57	57	80	80
Milled Production	110	110	173	173	173	173
Rough Production	165	165	260	260	260	260
Milling Rate (.9999)	6660	6660	6660	6660	6666	6660
MY Imports	850	850	1000	1000	1050	1125
TY Imports	930	930	1000	1000	1050	1125
TY Imp. from U.S.	93	93	0	30	0	0
Total Supply	1182	1182	1230	1230	1303	1378
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Consumption and Residual	1125	1125	1150	1150	1200	1300
Ending Stocks	57	57	76	80	103	78
Total Distribution	1182	1182	1230	1230	1303	1378
Yield (Rough)	3.44	3.44	4.0	4.0	4.0	4.0

(1000 HA) ,(1000 MT) ,(MT/HA)

CORN

There are indications that corn production across Iraq is rebounding. Reports from areas of Northern Iraq formerly under the control of the Islamic State of Iraq and Syria (ISIS) have resumed summer planting of corn. The Kirkuk governorate, a major corn production area however remains under ISIS control; irrigation water supplies remain restricted and inadequate for summer corn production. Corn production in MY 2017/18 is forecast at 300 TMT, up 16 percent from a year earlier.

Consumption in MY2016/17 is forecast at 475 TMT up six percent from the previous marketing year. Imports and domestic production in MY 2017/18 are revised upward based upon reports of increase demand by feed mills supplying poultry operations. However, both domestic corn and imports will see competition from feed wheat this year as Ministry of Trade domestic wheat purchases this year are significantly down from the previous two years.

Reports of increased economic activity across the central and southern sections of Iraq should support poultry consumption and indirectly corn production and imports. Feed mills in the Kurdish areas

reported during the spring of 2017 that domestic corn was not available, and that they were importing corn from Turkey. Importers also report that genetically-engineered corn is being imported.

Domestic corn demand is driven by Iraq’s poultry sector. Imported corn is favored over domestic due to quality concerns. If Iraq experiences a “wet” fall, the lack of adequate drying facilities can lead to large losses of domestic corn. Commercial feed mills and poultry operations are reluctant to use domestic corn under these conditions and will turn to other feed sources based upon availability and price.

Ending stocks are forecast to increase 50 TMT, as increased domestic production and imports faces competition from larger than anticipated feed wheat supplies.

Table 8: Corn Production, Supply and Demand

Corn Market Begin Year Iraq	2015/2016		2016/2017		2017/2018	
	Jul 2015		Jul 2016		Jul 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	57	57	76	76	75	75
Beginning Stocks	18	18	0	0	9	9
Production	182	182	259	259	300	300
MY Imports	270	270	200	200	200	225
TY Imports	310	310	200	200	200	225
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	470	470	459	459	509	534
MY Exports	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0
Feed and Residual	420	420	400	400	440	425
FSI Consumption	50	50	50	50	50	50
Total Consumption	470	470	450	450	490	475
Ending Stocks	0	0	9	9	19	59
Total Distribution	470	470	459	450	509	534
Yield	3.19	3.19	3.41	3.41	4.00	4.0

(1000 HA) ,(1000 MT) ,(MT/HA)

Feed Sector

Feed supplies during MY 2017/18 are expected to increase around five percent. Increased supplies of feed wheat and domestic corn will compensate for slightly lower supplies of wheat bran. Commercial feed mills in Kurdistan are currently reporting that feed wheat and wheat bran is available as well as PDS flour for poultry rations. These same feed mills report corn in short supply with Turkish corn being delivered at \$320/MT CPT (carriage paid to – name place of destination), when available. Local corn will not be available until November. Wheat bran is again available after shortages during the spring and found at \$260-\$270 per metric ton. Feed wheat was generally not available prior to the 2017 wheat harvest. Feed wheat prices, delivered to the feed mill in Kurdistan have been reported at \$325 per metric ton.

Feed mills in Kurdistan are also reporting that PDS flour is available for inclusion in poultry rations and priced at \$270/MT, delivered to the feed mill. Feed mill operators also report that Iraqi authorities have loosened the restrictions against importing genetically-engineered corn. This however has not been confirmed by the Ministry of Agriculture.

The diminished role of the PDS, both directly and indirectly, along with the lower support price being paid for domestic wheat may suggest that corn imports may increase in coming years. The 2017 wheat and barley harvest are complete, and will serve to rebuild feed availability in coming months. Domestic corn planted later this year will not be available until the late fall months.

Table 9: Iraq Feed Supplies and Prices

	MY 2016/17	MY2017/18	Market Price* (CPT)
Feed Wheat	650,000/MT	925,000/MT	\$325/MT
Wheat Bran	660,000/MT	650,000/MT	\$265/MT
Corn	400,000/MT	425,000/MT	\$320/MT
Barley	1,250,000/MT	1,100,000/MT	\$360/MT
Total:	2,960,000/MT	3,100,000/MT	

*Reported Feed Prices (Northern Iraq September 2017, Local Sources),

Trade

The dominant trend regarding Iraq's agricultural grain trade in recent years has been the reversal of roles between the Ministry of Trade and the private sector. Prior to 2014, Iraq's imports of wheat and rice were principally undertaken by the Ministry of Trade for use in the Public Distribution System. Since 2014 imports by the Ministry of Trade for use in the PDS have declined precipitously and private sector imports of rice and flour by the private sector have risen.

Reduced wheat imports by the Ministry of Trade have driven private sector flour imports to record levels. Iraq tightly controls wheat imports due to its high internal purchase price but allows flour imports. Rice imports by the Ministry of Trade have also declined, leading to increased private sector imports. Increasing private sector imports of Basmati rice likely reflects consumer preferences over much of the long grain rice Iraq has traditionally imported for the Public Distribution System. It is extremely important for Iraq to import high quality long grain rice for its PDS recipients, to ensure its consumption by PDS recipients.